

CHARITON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Funds		35-36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	40-41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Schedule of Expenditures of Federal Awards	5	43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		46-47
Schedule of Findings and Questioned Costs		48-54

Chariton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Dave Rich	President	2006
Chuck Crabtree	Vice President	2005
Nick Hunter	Board Member	2005
Denny Bisgard	Board Member	2006
Ann Moon	Board Member	2007

Board of Education (After September 2005 Election)		
Chuck Crabtree	President	2008
Ann Moon	Vice President	2007
Nick Hunter	Board Member	2008
Denny Bisgard	Board Member	2006
Dave Rich	Board Member	2006

School Officials

Dr. Robert Newsum	Superintendent	2006
Melissa Johnson	District Secretary (resigned)	2006
Kelley Reece	District Secretary (appointed)	2006
Paul Goldsmith	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Chariton Community School District, Chariton, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

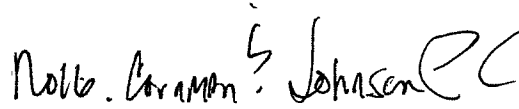
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Chariton Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006 on our consideration of the Chariton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chariton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (which are not presented herein) and expressed a qualified opinion on those financial statements due to the lack of capital assets. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,304,543 in fiscal 2005 to \$11,046,396 in fiscal 2006, while General Fund expenditures decreased from \$10,807,524 in fiscal 2005 to \$10,771,240 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$211,738 in fiscal 2005 to a balance of \$486,894 in fiscal 2006, a 130% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources during fiscal 2006. The decrease in expenditures was due primarily to a decrease in the instructional and support services functional expense categories, during fiscal 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chariton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Chariton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Chariton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Chariton Community School District Annual Financial Report

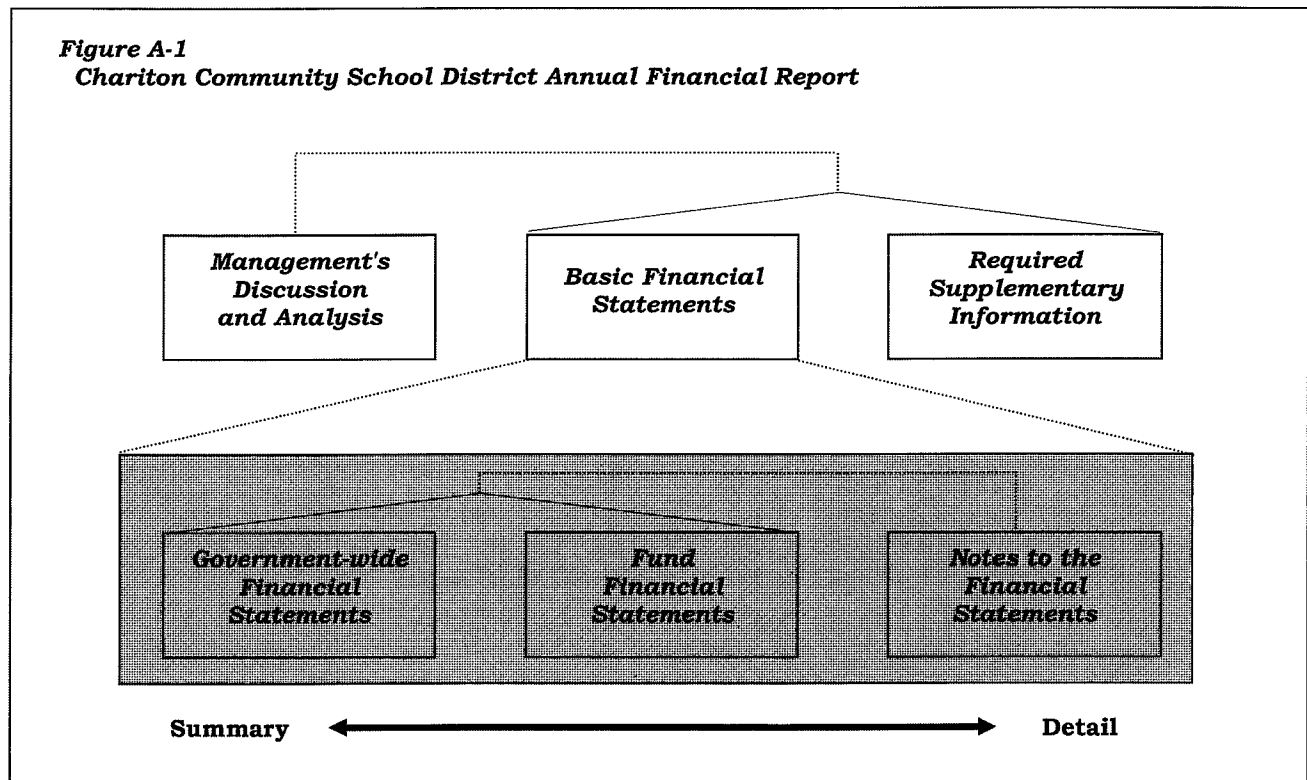


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the

District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 8,050,767	7,496,865	49,667	4,494	8,100,434	7,501,359	7.99%
Capital assets	8,178,860	8,481,916	58,222	62,006	8,237,082	8,543,922	-3.59%
Total assets	16,229,627	15,978,781	107,889	66,500	16,337,516	16,045,281	1.82%
Long-term obligations	1,638,962	1,998,272	0	0	1,638,962	1,998,272	-17.98%
Other liabilities	5,825,196	6,118,533	148,592	92,481	5,973,788	6,211,014	-3.82%
Total liabilities	7,464,158	8,116,805	148,592	92,481	7,612,750	8,209,286	-7.27%
Net assets:							
Invested in capital assets, net of related debt	6,623,224	6,820,156	58,222	62,006	6,681,446	6,882,162	-2.92%
Restricted	1,706,640	758,004	0	0	1,706,640	758,004	125.15%
Unrestricted	435,605	283,816	(98,925)	(87,987)	336,680	195,829	71.93%
Total net assets	\$ 8,765,469	7,861,976	(40,703)	(25,981)	8,724,766	7,835,995	11.34%

The District's combined net assets increased by 11.34 % or \$888,771 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$948,636 or 125.15% over the prior year. The increase was primarily a result of the improving fund balance in the Capital Projects fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$140,851 or 71.93%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,287,469	1,037,950	215,748	201,009	1,503,217	1,238,959	21.33%
Operating grants and contributions and restricted interest	1,515,531	1,403,937	296,461	268,144	1,811,992	1,672,081	8.37%
General revenues:							
Property tax	3,032,749	3,471,934	0	0	3,032,749	3,471,934	-12.65%
Local option sales and services tax	689,255	636,803	0	0	689,255	636,803	8.24%
Unrestricted state grants	6,245,991	5,725,356	0	0	6,245,991	5,725,356	9.09%
Unrestricted investment earnings	87,863	25,083	180	102	88,043	25,185	249.59%
Total revenues	12,858,858	12,301,063	512,389	469,255	13,371,247	12,770,318	4.71%
Program expenses:							
Governmental activities:							
Instructional	7,632,333	8,036,190	0	0	7,632,333	8,036,190	-5.03%
Support services	3,561,574	3,352,579	0	0	3,561,574	3,352,579	6.23%
Non-instructional programs	4,593	13,806	527,111	525,594	531,704	539,400	-1.43%
Other expenses	756,865	837,120	0	0	756,865	837,120	-9.59%
Total expenses	11,955,365	12,239,695	527,111	525,594	12,482,476	12,765,289	-2.22%
Excess(deficiency) of revenues over(under) expenditures	903,493	61,368	(14,722)	(56,339)	888,771	5,029	17572.92%
Capital contributions	0	0	0	3,316	0	3,316	-100.00%
Change in net assets	903,493	61,368	(14,722)	(53,023)	888,771	8,345	10550.34%
Beginning net assets	7,861,976	7,800,608	(25,981)	27,042	7,835,995	7,827,650	0.11%
Ending net assets	\$ 8,765,469	7,861,976	(40,703)	(25,981)	8,724,766	7,835,995	11.34%

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in Local Option Sales and Services Tax monies, due to the first complete year of funding. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will ever be fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

Governmental Activities

Revenues for governmental activities were \$12,858,858 and expenses were \$11,955,365.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 7,632,333	5,267,457
Support services	3,561,574	3,558,367
Non-instructional	4,593	4,593
Other expenses	756,865	321,948
Totals	<u>\$ 11,955,365</u>	<u>9,152,365</u>

- The cost financed by users of the District's programs was \$1,287,469.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,515,531.
- The net cost of governmental activities was financed with \$3,032,749 in property taxes, \$689,255 in local option sales and services tax, \$6,245,991 in unrestricted state grants and \$87,863 interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$512,389 and expenses were \$527,111. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Chariton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,050,853, above last year's ending fund balance of a \$1,110,487.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in grants resulted in an increase in revenues. Along with the increase in revenues, the General Fund had a decrease in expenditures. This resulted in the General Fund balance to increase from \$211,738 in fiscal year 2005 to \$486,894 in fiscal year 2006.
- The Capital Projects Fund balance increased from \$609,021 in fiscal year 2005 to \$1,192,474 in fiscal year 2006, due in part to the District receiving local option sales and services tax for the second year with limited expenses.
- The Debt Service Fund balance decreased drastically this year, as a result of a lower tax levy. The fund balance decreased from \$172,300 to \$11,437.
- The Physical Plant and Equipment Levy Fund balance increased from a deficit in 2005 of \$146,804 to a positive \$174,457 in 2006. This was primarily a result from the decrease in expenditures.
- The Management Fund balance decreased \$42,487 in the current year, due to the increase in property insurance and early retirement benefits.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from a deficit \$25,981 at June 30, 2005 to a deficit \$40,703 at June 30, 2006, representing a decrease of 57%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$715,620 more than budgeted receipts, a variance of 5.6%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional functional areas due to the timing of expenditures paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$8.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.73% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$431,697.

The original cost of the District's capital assets was \$17.1 million. Governmental funds account for \$17.0 million with the remainder of \$.1 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. This increase resulted from the purchases of new lights less current depreciation during the fiscal year 2006.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 373,410	373,410	0	0	373,410	373,410	0.00%
Land improvements	132,545	70,097	0	0	132,545	70,097	47.11%
Buildings and improvements	7,157,453	7,367,911	0	0	7,157,453	7,367,911	-2.94%
Machinery and equipment	515,452	670,498	58,222	62,006	573,674	732,504	-27.69%
Total	<u>\$ 8,178,860</u>	<u>8,481,916</u>	<u>58,222</u>	<u>62,006</u>	<u>8,237,082</u>	<u>8,543,922</u>	<u>-3.73%</u>

Long-Term Debt

At June 30, 2006, the District had \$1,638,962 in general obligation and other long-term debt outstanding. This represents a decrease of 21.9% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$83,962 at June 30, 2006.

The District had total outstanding general obligation bonds payable of \$1,555,000 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 1,555,000	1,820,000	-17.0%
Early retirement	83,962	178,272	-112.3%
Totals	<u>\$ 1,638,962</u>	<u>1,998,272</u>	<u>-21.9%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelley Reece, Board Secretary/Business Manager, Chariton Community School District, 140 E. Albia Road, P.O. Box 738, Chariton, Iowa, 50049-0738.

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 4,270,879	0	4,270,879
Other	2,406,121	48,194	2,454,315
Receivables			
Property tax:			
Delinquent	59,402	0	59,402
Succeeding year	328,791	0	328,791
Income surtax	186,791	0	186,791
Interfund	143,636	0	143,636
Accounts	12,119	0	12,119
Accrued ISCAP interest(Note 4)	33,386	0	33,386
Due from other governments	609,642	0	609,642
Inventories	0	1,473	1,473
Capital assets, net of accumulated depreciation(Note 5)	8,178,860	58,222	8,237,082
TOTAL ASSETS	16,229,627	107,889	16,337,516
LIABILITIES			
Interfund payable	0	143,636	143,636
Accounts payable	19,786	0	19,786
Salaries and benefits payable	1,135,739	0	1,135,739
ISCAP warrants payable(Note 4)	4,269,000	0	4,269,000
ISCAP accrued interest payable(Note 4)	28,900	0	28,900
ISCAP unamortized premium	30,302	0	30,302
Accrued interest payable	12,073	0	12,073
Deferred revenue:			
Succeeding year property tax	328,791	0	328,791
Other	605	0	605
Unearned revenues	0	4,956	4,956
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	280,000	0	280,000
Early Retirement	29,351	0	29,351
Portion due after one year:			
General obligation bonds payable	1,275,000	0	1,275,000
Early Retirement	54,611	0	54,611
TOTAL LIABILITIES	7,464,158	148,592	7,612,750
NET ASSETS			
Investment in capital assets, net of related debt	6,623,224	58,222	6,681,446
Restricted for:			
Salary Improvement Program	43,544	0	43,544
Early Intervention	75,711	0	75,711
Talented and Gifted	75,202	0	75,202
Capital projects	1,192,474	0	1,192,474
Physical plant and equipment levy	174,457	0	174,457
Other special revenue purposes	145,252	0	145,252
Unrestricted	435,605	(98,925)	336,680
TOTAL NET ASSETS	\$ 8,765,469	(40,703)	8,724,766

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,582,913	571,529	1,000,672
Special instruction	665,065	69,061	79,942
Other instruction	384,355	643,672	0
	<u>7,632,333</u>	<u>1,284,262</u>	<u>1,080,614</u>
Support services:			
Student services	237,994	0	0
Instructional staff services	372,365	0	0
Administration services	1,188,443	0	0
Operation and maintenance of plant services	1,257,820	0	0
Transportation services	504,952	3,207	0
	<u>3,561,574</u>	<u>3,207</u>	<u>0</u>
Non-instructional programs	<u>4,593</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	8,146	0	0
Long-term debt interest	82,792	0	0
AEA flowthrough	434,917	0	434,917
Depreciation(unallocated) *	231,010	0	0
	<u>756,865</u>	<u>0</u>	<u>434,917</u>
Total governmental activities	11,955,365	1,287,469	1,515,531
Business-Type activities:			
Non-instructional programs:			
Food service operations	<u>527,111</u>	<u>215,748</u>	<u>296,461</u>
Total	<u>\$ 12,482,476</u>	<u>1,503,217</u>	<u>1,811,992</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
 Local option sales and services
 Unrestricted state grants
 Unrestricted investment earnings
Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(5,010,712)	0	(5,010,712)
(516,062)	0	(516,062)
259,317	0	259,317
(5,267,457)	0	(5,267,457)
(237,994)	0	(237,994)
(372,365)	0	(372,365)
(1,188,443)	0	(1,188,443)
(1,257,820)	0	(1,257,820)
(501,745)	0	(501,745)
(3,558,367)	0	(3,558,367)
(4,593)		(4,593)
(8,146)	0	(8,146)
(82,792)	0	(82,792)
0	0	0
(231,010)	0	(231,010)
(321,948)	0	(321,948)
(9,152,365)	0	(9,152,365)
0	(14,902)	(14,902)
(9,152,365)	(14,902)	(9,167,267)
\$ 2,607,656	0	2,607,656
187,191	0	187,191
237,902	0	237,902
689,255	0	689,255
6,245,991	0	6,245,991
87,863	180	88,043
10,055,858	180	10,056,038
903,493	(14,722)	888,771
7,861,976	(25,981)	7,835,995
\$ 8,765,469	(40,703)	8,724,766

CHARITON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 4,270,879	0	0	4,270,879
Other	991,130	888,842	526,149	2,406,121
Receivables:				
Property tax:				
Delinquent	47,595	0	11,807	59,402
Succeeding year	0	0	328,791	328,791
Income surtax	0	0	186,791	186,791
Interfund	337,758	0	0	337,758
Accounts	12,009	0	110	12,119
Accrued ISCAP interest (Note 4)	33,386	0	0	33,386
Due from other governments	277,331	332,311	0	609,642
TOTAL ASSETS	\$ 5,970,088	1,221,153	1,053,648	8,244,889
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	28,679	165,443	194,122
Accounts payable	18,648	0	1,138	19,786
Salaries and benefits payable	1,135,739	0	0	1,135,739
ISCAP warrants payable (Note 4)	4,269,000	0	0	4,269,000
ISCAP accrued interest payable (Note 4)	28,900	0	0	28,900
ISCAP unamortized premium	30,302	0	0	30,302
Deferred revenue:				
Succeeding year property tax	0	0	328,791	328,791
Income surtax	0	0	186,791	186,791
Other	605	0	0	605
Total liabilities	5,483,194	28,679	682,163	6,194,036
Fund balances:				
Reserved for:				
Salary Improvement Program	43,544	0	0	43,544
Early Intervention	75,711	0	0	75,711
Talented and Gifted	75,202	0	0	75,202
Debt Service	0	0	11,437	11,437
Unreserved	292,437	1,192,474	360,048	1,844,959
Total fund balances	486,894	1,192,474	371,485	2,050,853
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,970,088	1,221,153	1,053,648	8,244,889

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 17)	\$ 2,050,853
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,178,860
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	186,791
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,073)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,638,962)</u>
Net assets of governmental activities (page 14)	<u>\$ 8,765,469</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,372,288	689,255	755,575	3,817,118
Tuition	640,590	0	0	640,590
Other	271,996	17,129	445,617	734,742
State sources	7,153,722	0	0	7,153,722
Federal sources	607,800	0	0	607,800
Total revenues	11,046,396	706,384	1,201,192	12,953,972
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	6,504,763	0	94,182	6,598,945
Special instruction	672,165	0	0	672,165
Other instruction	0	0	467,251	467,251
	7,176,928	0	561,433	7,738,361
Support services:				
Student services	237,994	0	0	237,994
Instructional staff services	298,547	73,075	0	371,622
Administration services	1,140,710	26,150	0	1,166,860
Operation and maintenance of plant services	1,034,037	23,706	200,077	1,257,820
Transportation services	443,514	0	0	443,514
	3,154,802	122,931	200,077	3,477,810
Non-instructional programs	4,593	0	0	4,593
Other expenditures:				
Facilities acquisitions	0	0	8,146	8,146
Long-term debt:				
Principal	0	0	265,000	265,000
Interest and fiscal charges	0	0	84,779	84,779
AEA flowthrough	434,917	0	0	434,917
	434,917	0	357,925	792,842
Total expenditures	10,771,240	122,931	1,119,435	12,013,606
Net changes in fund balances	275,156	583,453	81,757	940,366
Fund balance beginning of year	211,738	609,021	289,728	1,110,487
Fund balance end of year	\$ 486,894	1,192,474	371,485	2,050,853

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 19) \$ 940,366

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 119,757	
Depreciation expense	(422,813)	(303,056)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	265,000
--------	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,987

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

(95,114)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	94,310
------------------	--------

Changes in net assets of governmental activities (page 16)

\$ 903,493

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 48,194
Interfund receivable	3,316
Inventories	1,473
Capital assets, net of accumulated depreciation (Note 5)	58,222
Total assets	<u>111,205</u>
LIABILITIES	
Interfund payable	146,952
Unearned revenue	4,956
Total liabilities	<u>151,908</u>
NET ASSETS	
Invested in capital assets	58,222
Unrestricted	(98,925)
Total net assets	<u>\$ (40,703)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 215,748
TOTAL OPERATING REVENUES	<u>215,748</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	180,425
Benefits	78,065
Services	2,954
Supplies	256,783
Depreciation	8,884
TOTAL OPERATING EXPENSES	<u>527,111</u>
OPERATING LOSS	<u>(311,363)</u>
NON-OPERATING REVENUES:	
State sources	7,725
Federal sources	288,736
Interest income	180
TOTAL NON-OPERATING REVENUES	<u>296,641</u>
Change in net assets	(14,722)
Net assets beginning of year	<u>(25,981)</u>
Net assets end of year	<u>\$ (40,703)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 215,812
Cash payments to employees for services	(258,490)
Cash payments to suppliers for goods or services	(242,077)
Net cash used in operating activities	<u>(284,755)</u>
Cash flows from non-capital financing activities:	
State grants received	7,725
Federal grants received	270,781
Net cash provided by non-capital financing activities	<u>278,506</u>
Cash flows from investing activities:	
Increase in interfund loans	62,592
Interest on investments	180
Net cash provided by investing activities	<u>62,772</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,100)
Net cash used in capital and related financing activities	<u>(5,100)</u>
Net increase in cash and cash equivalents	51,423
Cash and cash equivalents at beginning of year	<u>(3,229)</u>
Cash and cash equivalents at end of year	<u><u>\$ 48,194</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (311,363)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,955
Depreciation	8,884
Increase in inventories	(295)
Increase in unearned revenue	64
Net cash used in operating activities	<u><u>\$ (284,755)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 48,194</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2006, the District received Federal commodities valued at \$17,955.	
SEE NOTES TO FINANCIAL STATEMENTS.	

CHARITON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Chariton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Chariton, Iowa, and the predominate agricultural territory in Lucas and Marion Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Chariton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Chariton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas and Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following major proprietary funds:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus

and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings and improvements	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings and improvements	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services and non-instructional functional areas exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$ 515,397</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	PPEL	\$ 155,123
General	Capital Projects	25,362
Nutrition	Capital Projects	3,316
General	Nutrition	146,952
General	Management	10,320
Total		<u>\$ 341,073</u>

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 1,606,588	32,557	1,601,000	28,222
2006-07A	6/28/06	6/28/07	2,664,291	829	2,668,000	678
Total			<u>\$ 4,270,879</u>	<u>33,386</u>	<u>4,269,000</u>	<u>28,900</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	1,500,000	1,500,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	3.500%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 373,410	0	0	373,410
Total capital assets not being depreciated	373,410	0	0	373,410
Capital assets being depreciated:				
Land improvements	963,328	83,000	1,953	1,044,375
Buildings and improvements	11,635,736	0	0	11,635,736
Machinery and equipment	4,061,705	36,757	153,664	3,944,798
Total capital assets being depreciated	16,660,769	119,757	155,617	16,624,909
Less accumulated depreciation for:				
Land improvements	893,231	20,552	1,953	911,830
Buildings and improvements	4,267,825	210,458	0	4,478,283
Machinery and equipment	3,391,207	191,803	153,664	3,429,346
Total accumulated depreciation	8,552,263	422,813	155,617	8,819,459
Total capital assets being depreciated, net	8,108,506	(303,056)	0	7,805,450
Governmental activities capital assets, net	\$ 8,481,916	(303,056)	0	8,178,860

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 140,447	5,100	0	145,547
Less accumulated depreciation	78,441	8,884	0	87,325
Business-type activities capital assets, net	\$ 62,006	(3,784)	0	58,222

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 100,260
Other		1,779
Support services:		
Instructional staff		743
Administration		27,583
Transportation		61,438
		<u>191,803</u>
Unallocated depreciation		<u>231,010</u>
Total governmental activities depreciation expense		<u>\$ 422,813</u>
Business-type activities:		
Food services		<u>\$ 8,884</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 1,820,000	0	265,000	1,555,000	280,000
Early Retirement	178,272	2,880	97,190	83,962	29,351
Total	\$ 1,998,272	2,880	362,190	1,638,962	309,351

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated May 1, 1998	
		Principal	Interest
2007	4.50 %	\$ 280,000	72,437
2008	4.50	300,000	59,838
2009	4.65	315,000	46,337
2010	4.75	320,000	31,690
2011	4.85	340,000	16,490
Total		\$ 1,555,000	226,792

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-six and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$100 per year of service with a maximum of of \$1,500 (before deductions) plus the difference between the salary schedule base and the licensed employee's current salary (before deductions) less supplemental pay or extended contract pay. The incentive can be received as cash or the school district will provide continuing coverage under the school district's group insurance plan until the licensed employee reaches age sixty-five or when the incentive benefit runs out (whatever occurs first). If the retiree still has a balance in escrow for insurance at age sixty-five, the District shall pay the remainder balance to the retiree (net taxes). Early retirement benefits paid during the year ended June 30, 2006, totaled \$97,190.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$372,294, \$368,804, \$340,235 respectively, equal to the required contributions for each year.

(8) Risk Management

Chariton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: Dental and long-term disability.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the

risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$96,410.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2006 no liability has been recorded in the District's financial statements. As of June 30, 2006 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Chariton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$434,917 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services and non-instructional functional program areas exceeded the amount budgeted.

(11) Deficit Fund Balance

The School Nutrition had deficit net assets of \$40,703 at June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 5,192,450	215,928
State sources	7,153,722	7,725
Federal sources	607,800	288,736
Total revenues	<u>12,953,972</u>	<u>512,389</u>
Expenditures:		
Instruction	7,738,361	0
Support services	3,477,810	0
Non-instructional programs	4,593	527,111
Other expenditures	792,842	0
Total expenditures	<u>12,013,606</u>	<u>527,111</u>
Excess(deficiency) of revenues over(under) expenditures	940,366	(14,722)
Balance beginning of year	<u>1,110,487</u>	<u>(25,981)</u>
Balance end of year	<u>\$ 2,050,853</u>	<u>(40,703)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,408,378	4,576,084	4,576,084	832,294
7,161,447	7,383,437	7,383,437	(221,990)
896,536	791,220	791,220	105,316
13,466,361	12,750,741	12,750,741	715,620
7,738,361	8,058,058	8,058,058	319,697
3,477,810	2,883,668	2,883,668	(594,142)
531,704	444,361	444,361	(87,343)
792,842	1,202,628	1,202,628	409,786
12,540,717	12,588,715	12,588,715	47,998
925,644	162,026	162,026	763,618
1,084,506	776,456	776,456	308,050
2,010,150	938,482	938,482	1,071,668

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services and non-instructional functional program areas exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 45,689	146,280	326,652	518,621	7,528	526,149
Receivables:						
Property tax:						
Current year delinquent	4,970	0	2,928	7,898	3,909	11,807
Succeeding year	180,000	0	148,791	328,791	0	328,791
Income surtax	0	0	186,791	186,791	0	186,791
Accounts	0	110	0	110	0	110
TOTAL ASSETS	\$ 230,659	146,390	665,162	1,042,211	11,437	1,053,648
LIABILITIES AND FUND BALANCES						
Liabilities:						
Interfund payable	\$ 10,320	0	155,123	165,443	0	165,443
Accounts payable	0	1,138	0	1,138	0	1,138
Deferred revenue:						
Succeeding year property tax	180,000	0	148,791	328,791	0	328,791
Income surtax	0	0	186,791	186,791	0	186,791
Total liabilities	190,320	1,138	490,705	682,163	0	682,163
Fund balances:						
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	11,437	11,437
Unreserved:						
Undesignated	40,339	145,252	174,457	360,048	0	360,048
Total fund balances	40,339	145,252	174,457	360,048	11,437	371,485
TOTAL LIABILITIES AND FUND BALANCES	\$ 230,659	146,390	665,162	1,042,211	11,437	1,053,648

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 235,368	0	333,016	568,384	187,191	755,575
Other	9,921	431,097	2,874	443,892	1,725	445,617
TOTAL REVENUES	245,289	431,097	335,890	1,012,276	188,916	1,201,192
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	94,182	0	0	94,182	0	94,182
Other instruction	0	467,251	0	467,251	0	467,251
Support services:						
Operation and maintenance of plant services	193,594	0	6,483	200,077	0	200,077
Other expenditures:						
Facilities acquisitions	0	0	8,146	8,146	0	8,146
Long-term debt:						
Principal	0	0	0	0	265,000	265,000
Interest and fiscal charges	0	0	0	0	84,779	84,779
TOTAL EXPENDITURES	287,776	467,251	14,629	769,656	349,779	1,119,435
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)						
EXPENDITURES	(42,487)	(36,154)	321,261	242,620	(160,863)	81,757
FUND BALANCES BEGINNING OF YEAR	82,826	181,406	(146,804)	117,428	172,300	289,728
FUND BALANCES END OF YEAR	\$ 40,339	145,252	174,457	360,048	11,437	371,485

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 1,332	1,255	1,283	1,304
Speech	0	21	21	0
National honor society	0	15	0	15
Vocal Music	16	1,000	1,016	0
Band	429	8,922	8,088	1,263
Middle School Band	366	1,954	2,211	109
Flag Team	45	514	656	(97)
Co-Ed Athletics	68,281	111,872	171,628	8,525
Girls Soccer	(119)	0	16	(135)
Boys Soccer	(154)	424	375	(105)
Boys Track	20	0	0	20
Girls Track	15	601	431	185
Cross Country	424	546	785	185
Boys Tennis	0	1,390	1,252	138
Boys Basketball	(298)	6,594	6,355	(59)
Football	6,882	22,116	16,936	12,062
Baseball	1,933	4,561	3,839	2,655
Wrestling	338	10,300	1,990	8,648
Weight Room	1,004	1,947	1,683	1,268
Golf	252	338	448	142
Girls Basketball	1,454	3,136	2,265	2,325
Volleyball	1,175	920	1,385	710
Softball	(260)	2,151	1,891	0
Class of 2004	1,499	0	1,499	0
Class of 2005	2,549	500	0	3,049
Class of 2006	6,504	1,927	7,135	1,296
Class of 2007	475	17,963	13,092	5,346
Class of 2008	116	0	116	0
Contingency	1,771	17,670	17,252	2,189
Concessions	(5,350)	56,144	47,670	3,124
Student Council	3,249	7,849	8,694	2,404
Life	82	0	0	82
Scholarship Club	4,780	5,800	3,602	6,978
Grads	200	0	0	200
Spanish Club	2,036	5,322	2,920	4,438
Art Service	600	400	231	769
C Club	832	949	490	1,291
SSI	398	0	398	0
FFA	8,450	15,274	14,199	9,525
FBLA	296	2,458	2,184	570
SES Club	1,761	5,097	5,580	1,278

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Communic Club	172	0	172	0
On Other Hand	(35)	1,216	1,181	0
Yearbook	4,461	14,320	16,289	2,492
Cap & Gown	(67)	2,075	2,008	0
Cheerleaders	208	9,969	8,574	1,603
Drill Team	4,145	12,389	11,111	5,423
MS Cheerleaders	82	0	0	82
Musical	4,401	5,808	7,311	2,898
Horticulture	778	627	1,405	0
MOC	98	0	98	0
Med Cntr Fine	15	0	0	15
HS Ind Arts	1,071	38	29	1,080
Towel Fees	3,747	1,745	1,617	3,875
HS Home Ec	(287)	287	0	0
MS Home Ec	1,521	0	0	1,521
Woods Club	2,080	534	1,240	1,374
Club Construction	1,625	4,729	4,710	1,644
Baby Think	107	0	106	1
Donations	(5,853)	605	142	(5,390)
Ses Scholarship	356	0	356	0
MS Media Center	30	0	0	30
MS Student Council	1,052	2,956	3,560	448
6th Grade	661	200	848	13
7th Grade	86	0	(168)	254
8th Grade	1,462	2,441	2,871	1,032
MS Ind Tech	341	0	0	341
MS Pop	8,053	14,812	22,725	140
MS BLD Initiative	2,068	2,241	(4,241)	8,550
MS Soar	200	66	66	200
MS Yearbook Club	5,290	1,892	3,394	3,788
Chariton Elementary	21,066	16,376	24,359	13,083
Van Allen Elementary	5,675	17,804	6,480	16,999
HS Band	3,414	37	1,392	2,059
Total	\$ 181,406	431,097	467,251	145,252

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	3,817,118	3,936,979	3,360,097	3,350,539
Tuition		640,590	439,979	362,761	368,023
Other		734,742	618,054	535,889	608,218
Intermediate sources		0	20,500	200	52,100
State sources		7,153,722	6,528,149	5,959,825	5,816,608
Federal sources		607,800	580,644	772,270	408,962
Total	\$	12,953,972	12,124,305	10,991,042	10,604,450
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	6,598,945	4,834,869	4,523,645	4,323,320
Special instruction		672,165	1,818,441	1,798,565	1,646,312
Other instruction		467,251	1,167,711	1,149,154	1,171,125
Support services:					
Student services		237,994	164,689	123,432	127,710
Instructional staff services		371,622	279,600	305,229	247,057
Administration services		1,166,859	1,063,622	926,241	945,379
Operation and maintenance of plant services		1,257,820	1,074,068	916,623	935,210
Transportation services		443,514	506,022	371,026	492,041
Central services		0	0	57,175	51,357
Other support services		0	176,605	121,839	100,651
Non-instructional programs		4,593	13,806	9,858	27,129
Other expenditures:					
Facilities acquisitions		8,146	102,635	403,221	1,439,106
Long-term debt:					
Principal		265,000	260,000	255,000	235,000
Interest and other charges		84,779	96,202	107,068	117,082
AEA flow-through		434,917	401,808	330,200	391,768
Total	\$	12,013,605	11,960,078	11,398,276	12,250,247

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	\$ 17,955
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	57,939
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	212,842
			<u>270,781</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-G	<u>231,920</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215K	FY 06	<u>26,000</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 03	8,009
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	9,914
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	5,267
			<u>23,190</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 06	<u>12,927</u>
READING FIRST STATE GRANTS	84.357	FY 05	503
READING FIRST STATE GRANTS	84.357	FY 06	139,425
			<u>139,928</u>
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 04	23,295
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 05	70,592
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 06	66,192
			<u>160,079</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 06	<u>38,379</u>
SPECIAL EDUCATION - GRANTS TO			
STATES (PART B)	84.027	FY 06	<u>79,942</u>
TOTAL			<u>\$ 1,001,101</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Chariton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chariton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chariton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chariton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Chariton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Chariton Community School District:

Compliance

We have audited the compliance of Chariton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Chariton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Chariton Community School District's management. Our responsibility is to express an opinion on Chariton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chariton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chariton Community School District's compliance with those requirements.

In our opinion, Chariton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Chariton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Chariton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Chariton Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Chariton Community School District and other parties to whom Chariton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2006

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Chariton Community School District did not qualify as a low-risk auditee.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

II-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over one year.

Recommendation - The District should report the unclaimed property to the Great Iowa Treasure Hunt.

Response - We have voided the majority of these. Any left will be turned over to the Great Iowa Treasure Hunt.

Conclusion - Response accepted.

II-C-06 Grants - We noted during our audit, that when expenditures for specific grants were posted; it appeared that the expenses were not always properly coded to those line item projects. It was also noted instances of final reports for grants were finalized without the use of general ledger numbers.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures. Individuals in charge of grants should report to the board secretary for expenses that have been coded to that particular grant.

Response - Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion - Response accepted.

II-D-06 Nutrition Fund Payroll - The District should develop a workout plan for the School Nutrition Fund for repayments to the General Fund. The Nutrition Fund is carrying a liability of \$146,952.30 due to the General Fund.

Recommendation - The District should develop a plan to pay the current salaries timely from the School Nutrition Fund and a workout plan to repay the General Fund.

Response - The Nutrition Fund is monthly reimbursing the General Fund for payroll paid timely. The Nutrition Fund will continue to attempt to reduce this debt to the General Fund.

Conclusion - Response acknowledged.

II-E-06 Student Activity Fund Accounts - We noted during our audit that the District has accounts in the Student Activity Fund that appear instructional in nature. These accounts in question include Industrial Arts, Home Economics, Towel Fees, LIFE, Media, Contingency and Baby Think Donation. It was also noted that there was still a balance in past class that have already graduated.

Recommendation - Accounts in the Student Activity Fund that are instructional in nature should be closed and moved to the General Fund. The District should also close the past class accounts upon graduation.

Response - We will review these accounts and make the necessary changes.

Conclusion - Response accepted.

II-F-06 Check Signatures - We noted during our audit, instances of unauthorized signatures and instances of only one signature on the District's Activity fund checks.

Recommendation - Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-G -06 Scholarship Funds - We noted during our audit that the District has a SES Scholarship Club and Scholarship Club account in the Student Activity Fund.

Recommendation - The Scholarship accounts would be better handled in an Expendable Trust Fund.

Response - We will comply.

Conclusion - Response accepted.

II-H-06 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date on the software system.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We are using the assistance of Industrial Appraisal Company and attending SUI workshops to help us comply.

Conclusion - Response accepted.

II-I-06 Dividends - It was noted that the General Fund receipted in two dividends, one from stock in Principal, and the other from IASB during the current year.

Recommendation - Per Chapter 12B & 12C of the Code of Iowa, stock is not an allowable investment and therefore should be sold. The IASB dividend was a safety group insurance dividend, which should be more appropriately receipted into the Management Fund. The District needs to review these matters and correct them for the future.

Response - We are making a continued effort to resolve this matter.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Number: 1107-G
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

III-B-06 Grants - We noted during our audit, that when expenditures for specific grants were posted; it appeared that the expenses were not always properly coded to those line item projects. It was also noted instances of final reports for grants were finalized without the use of general ledger numbers.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures. Individuals in charge of grants should report to the board secretary for expenses that have been coded to that particular grant.

Response - Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the certified budget amounts in the support services and non-instructional functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The District will make every effort to avoid exceeding the certified budget amounts. If this should happen in the future, the District will amend the budget in accordance with Chapter 24.9

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Rich, Board Member Owner of True Value	Supplies	\$3,781

The above transactions do appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa.

Recommendation - The District should not exceed spending above the \$2,500 limit for related party transactions with Board Members. The District should seek legal counsel and refrain from doing business with related party officials.

Response - We will seek legal counsel on this matter.

Conclusion - Response acknowledged.

IV-F-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit at Midwest Heritage Bank.

Recommendation - The District should contact the appropriate banks and request reimbursement for underpayment of interest.

Response - The bank has been contacted and rates have been adjusted.

Conclusion - Response accepted.

IV-J-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-06 Financial Condition - The District had several negative account balances in the Student Activity Fund at June 30, 2006. The District also had negative net assets in the School Nutrition Fund of \$40,703 at June 30, 2006.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will investigate alternatives to eliminate these deficits.

Conclusion - Response accepted.